International Banking Federation

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Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
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October 15, 2013

Dear Sir/Madam:

Re: Response to the Basel Committee's consultation on *Liquidity coverage ratio disclosure standards*

The IBFed appreciates the opportunity to comment on the Basel Committee's consultation document, *Liquidity coverage ratio disclosure standards*. The proposed disclosure regime would require internationally active financial institutions to make public their LCR and certain of its components through a common template. Additionally, financial institutions would be expected to explain their LCR results and overall liquidity position with the same frequency as, and concurrently with, their financial statements.

We understand and support the Basel Committee's efforts to both enhance market transparency and standardize LCR disclosure. In general, IBFed and its members do not object to periodic lagged disclosure of the LCR; however, we are concerned about the potential adverse effects that may arise from the publication of detailed information about a financial institution's liquidity position. As the Basel Committee notes in the proposal, there are challenges with granular liquidity disclosures, particularly during times of stress. Moreover, we note that required disclosures, as presented in the consultative document, will negate the LCR transition period and likely prohibit financial institutions from using their buffers in times of stress, as the Basel Committee intends.

Given these challenges, the IBFed urges the committee to further consider whether the consultative document achieves the appropriate trade-off between transparency and the potentially destabilizing impacts of disclosing information about a financial institution's liquidity position, particularly during times of stress. The IBFed strongly urges the Basel Committee to, at a minimum, recommend jurisdictions implement a timeline that would delay public disclosure until such time as the LCR has been fully transitioned into all jurisdictions, and financial institutions, supervisors and market participants have had a chance to adapt to and understand the LCR and its drivers.

Our detailed comments on the consultative document are provided below.

Public Disclosure of Liquidity Information

As the Basel Committee is aware, there are problems inherent to any type of financial institution liquidity disclosure. While granular and frequent disclosure of a financial institution or bank holding company's liquidity position may enhance market transparency in normal

times, during periods of stress, such disclosures can exacerbate the length and depth of an institution's liquidity stress, and - in times of systemic stress - spread contagion. Additionally, detailed public disclosure of the components of the LCR could put those financial institutions that are required to meet the standard and disclose information about their liquidity at a competitive disadvantage to those who do not, particularly in smaller markets.

With these points in mind, we recommend that the Basel III liquidity disclosure requirements be limited to the basic components of the LCR, such as High Quality Liquid Assets (HQLA) and high-level outflow/inflow categories, supported by qualitative information as appropriate. This approach would help facilitate market understanding and awareness of a financial institution's liquidity – including its risk measurement and management - while mitigating any adverse impact of a granular disclosure.

Use of Daily Averages

While we appreciate the Basel Committee's proposal to use averages over a quarterly time frame, we are concerned about the requirements to calculate the LCR on a daily basis. We acknowledge that financial institutions will need to be able to provide supervisors with daily LCR data if requested. However, given existing systems capabilities and financial reporting cycles (i.e. financial statements are only produced once a month), it will be operationally challenging to provide simple averages of daily observations that meet basic financial reporting disclosure standards. Month-end data is subject to a robust and stringent reconciliation process that is required to produce a bank's financial statements (i.e. reconciled to general ledger, designed to meet external audits, and Sarbanes-Oxley requirements, etc.). It would be impractical to apply these standards on a daily basis.

We believe that public disclosure of daily averages may not provide information that is incrementally meaningful, and could be misleading. Daily results at the level proposed in the disclosure standards may involve estimates that will not be subject to the same level of rigour typically required of public disclosures.

We would emphasize that the issue is not that financial institutions lack the ability to track daily positions and cash flows, but rather that the data may not be as robust as would be required under financial reporting standards.

Additionally, as currently presented in the consultative document, the LCR disclosure template is essentially a truncated version of the Quantitative Impact Study (QIS) template. However, because of the structure of the QIS template and, by extension the proposed LCR template, financial institutions would have to fill out the entire QIS to arrive at the line items required for disclosure. This is unnecessarily burdensome for financial institutions to do on a daily basis, particularly given that it would require them to identify unencumbered assets on a daily basis.

We are aware that some supervisors may want to use daily data to address the possibility that financial institutions could manipulate LCR drivers to ensure optimal point-in-time LCR results. It is our opinion that this concern would be best addressed on a non-public bilateral basis through on-going dialogue with the supervisor as part of the supervisory liquidity monitoring process, since there is substantial and appropriate rigour already applied under the current regulatory oversight of financial institutions' liquidity management processes and metrics (e.g. monthly LCR and other supervisory reports and frequent updates on financial institutions' own intra-month metrics).

For all of the reasons above, the IBFed and its members recommend that LCR disclosures be based on monthly averages using data from the previous four or six month-end periods,

supported by appropriately robust qualitative discussion. This would be sufficient for monitoring/disclosure purposes, and would adequately represent positions and aid in trend analysis.

Scope of application

We believe that the LCR should only be disclosed publicly at a consolidated level, as reporting to supervisors at the local and group level would be in place as appropriate. Otherwise, the LCR could become binding at the sub-entity level due to market expectations.

Market Education

Due to the novelty of the LCR, we encourage the Basel Committee to educate investors and other market participants on the LCR. Regarding disclosure specifically, we believe supervisors should provide additional guidance, either publicly or to the industry through regulator/industry forums, on the communication protocol and time period over which regulators (or financial institutions with supervisory approval) may advise the marketplace that non-compliance with a 100% minimum by a financial institution is acceptable.

As noted above, the industry is concerned that using a buffer in times of stress, and subsequent non-compliance with the 100% minimum LCR level, has the potential to be destabilizing and pro-cyclical. The detailed disclosure required under the proposed disclosure standards could exacerbate market instability in this regard, which is briefly acknowledged in paragraph 6 of the disclosure standard document. As the standards are finalized, it would be beneficial to have a better understanding of how regulators envision communicating with the marketplace. For example, would a financial institution be in a position to include in its disclosure that supervisors have bi-laterally accepted a lower LCR ratio for a period of time, or would home or host regulators communicate this broadly to the marketplace on behalf of the industry, likely signalling a systemic event? Would this be coordinated with financial institution's financial reporting timelines? Perhaps the financial institution would simply issue a statement that it complies with liquidity requirements, and not issue specific LCR results?

Additional information would also be helpful in light of different reporting periods and year-ends for financial institutions throughout the world.

Alignment with Other Liquidity Disclosure Requirements

We welcome the flexibility afforded financial institutions in paragraph 16 to provide sufficient qualitative discussion to promote a greater understanding of the results and data provided where significant to their LCR. We view the list of examples of discussion issues in this paragraph as suggestions, not requirements, and as such, we believe that financial institutions have the flexibility to provide appropriate qualitative discussion to reflect the unique liquidity characteristics of the most material off- and on-balance sheet exposures.

Furthermore, as outlined in paragraphs 19 and 20, we believe that LCR disclosures need to be complimented by other reporting metrics (e.g. long- and medium-term funding metrics), which would complete the liquidity picture and show trends of the institutions. While it is appropriate to discuss these metrics, a consistent basis for calculation is important. We are concerned that the options being given for potential additional disclosures do not provide this consistency.

We are concerned that the proposed LCR disclosure standards differ with other disclosure regimes, such as the Enhanced Disclosure Task Force (EDTF) recommendations, and thus may lead to misinterpretation. One notable example is the difference in the definition of high-quality liquid assets (HQLA) between the LCR and EDTF's Table 5. We hope that harmonization of the disclosure requirements will occur over time in order to avoid the need for extensive explanations and reconciliation.

Effective Date

We appreciate that it is appealing to tie the disclosure requirements to the LCR transition/implementation date. However, because the LCR is new, requiring public disclosure risks disclosing metrics that are not fully understood and are not comparable over time or by financial institution. Therefore, we encourage the Basel Committee to recommend only supervisory disclosure until one year after the January 2015 implementation date, when the LCR will be fully implemented. This would give financial institutions an opportunity to fully understand volatilities in ratios/inputs, resolve any outstanding interpretation issues, and allow for finalization of local LCR requirements across jurisdictions before being required to disclose to the market.

We thank you for taking our comments into consideration and look forward to future discussions on these issues.

Yours sincerely,

Mrs Sally Scutt
Managing Director
IBFed